

FORM  
**N-586**  
(REV.1995)

# TAX CREDIT FOR LOW-INCOME HOUSING

Or fiscal year beginning \_\_\_\_\_, 19 \_\_\_\_\_, and ending \_\_\_\_\_, 19 \_\_\_\_\_

TAX  
YEAR

**19** \_\_\_\_\_

ATTACH THIS SCHEDULE AND A COPY OF FEDERAL FORM 8586 TO  
FORM N-11, N-12, N-15, N-20, N-30, N-35, N-40, N-70NP, OR F-1 WHICHEVER IS APPLICABLE.

ATTACH THE CERTIFICATE ISSUED BY THE HOUSING FINANCE AND DEVELOPMENT CORPORATION (HFDC) TO THIS SCHEDULE.

Name(s) as shown on Form N-11, N-12, N-15, N-20, N-30, N-35, N-40, N-70NP, or F-1

Social security number

Federal Employer I.D. No.

## Part I Low-Income Housing Credit

1 Name and address of building(s) for which the credit is being claimed \_\_\_\_\_

2 Date building(s) placed in service (month, year) \_\_\_\_\_

3 Enter the amount of the tax credit allocated by the HFDC to Hawaii property .....

**3**

4 Multiply the amount on line 3 by 30% and enter here .....

**4**

5 Flow through of Hawaii low-income housing credit received from other entities, if any:

Check box below. Name and Federal Employer's I.D. No. of Entity \_\_\_\_\_

☐ **a** S corporation shareholder — enter total from Schedule K-1, Form N-35, line 12e(1) through (4) ..

☐ **b** Partner — enter amount from Schedule K-1, Form N-20, line 16 .....

☐ **c** Beneficiary — enter amount from Schedule K-1, Form N-40, line 8b .....

☐ **d** Patron — enter the amount from federal Form 1099-PATR .....

**5**

6 Carryover of unused low-income housing tax credit from prior years .....

**6**

7 Tentative current year low-income housing credit (Add lines 4, 5, and 6) .....

**7**

**Note:** Form N-20 and Form N-35 filers stop here and enter the amount on line 7 on the appropriate lines of your tax return.

## Part II Tax Liability Limitations (Not to be completed by Form N-20 and Form N-35 filers)

8 **a** Individuals — Enter tax liability amount from Form N-11 (or N-12) or, if applicable, Form N-15 .....

**b** Corporations — Enter tax liability from Form N-30 .....

**c** Other filers — Enter your income tax liability, before credits, from the applicable form .....

**8**

9 **a** Individuals — Except for the low-income housing credit, combine **all** other credits, **excluding** payments, from Form N-11 (or N-12) or, if applicable, from Form N-15 and enter total here .....

**b** Corporations — Combine lines 1, 2, and 4 of Schedule H, and lines 32d and 32e on page 1, Form N-30, and enter total here .....

**c** Other filers — Except for the low-income housing credit, combine **all** other credits, **excluding** payments and enter total here .....

**9**

10 Income tax liability, as adjusted line 8 minus line 9. If the result is zero or less than zero, enter zero on line 10 .....

**10**

11 Total credit allowed — Enter the smaller of line 7 or line 10. This is your low-income housing credit allowable for the year. Enter this amount also on the appropriate line for the credit on Form N-11 (or N-12); Form N-15; Form N-30, Schedule H; Form N-40; Form N-70NP; **or** Form F-1, Schedule H, whichever is applicable .....

**11**

12 Carryover of unused credit. Enter here the remainder of line 7 and 11; otherwise enter zero. The amount of any unused tax credit may be carried over and used as a credit against your income tax liability in subsequent years until exhausted. ....

**12**

**PART III** Recapture of Low-Income Housing Credit

Building	Address of Building (as shown on Form N-586)	Date placed in Service (from Form N-586)
A		
B		

	Building		TOTAL
	A	B	
1 Enter the amount of accelerated portion of tax credits recaptured, federal Form 8611, line 7 .....	1		
2 Multiply line 1 by 30% and enter result .....	2		
3 Enter net recapture amount from flow-through entities, Schedule K-1 or Federal Form 1099-PATR .....	3		
4 Enter the interest on line 3 recapture amount (see Instructions) .....	4		
5 IRC Section 42 (j)(5) Partnerships ONLY - Enter interest on line 2 recapture amount .....	5		
6 Total recapture - Add lines 2, 3, 4, and 5. Enter here and on proper line of your tax return .....	6		

## General Instructions

(Section references are to the Internal Revenue Code (IRC) unless otherwise noted.)

**Note:** IRS Revenue Ruling 92-40 advises taxpayers that the method of determining the aggregate low-income housing tax credit for the State under section 42 has changed for housing projects certified after June 30, 1992. Hawaii has not adopted the provisions related to the revised method. As a result, the aggregate amount of tax credit and the allocated tax credit may be different for federal and State income tax returns for the period July 1, 1992 to December 31, 1992. The tax credit to be claimed on Form N-586 is the amount allocated for State tax returns. Contact the Housing Finance and Development Corporation (HFDC) for further information.

**Purpose of Form.** Owners of residential rental buildings providing low-income housing must use Form N-586 to claim the low-income housing credit.

The tax credit does not apply to occupants of low-income housing units.

**Partnerships, S Corporations, Franchise tax filers, Estates and Trusts.**—Complete Part I to figure the credit to pass through to the partners, shareholders, or beneficiaries. Attach a copy of federal Form 8586 to the entity's income tax return.

**Caution:** No credit may be claimed on any building for which there has been allowed any relief from the passive loss rules under section 502 of the Tax Reform Act of 1986.

**Statutory Reference. Section 235-110.8, Hawaii Revised Statutes (HRS).**

**Low-income housing tax credit.**

**Note:** Although section 235-110.8, HRS, restricts the claiming of the low-income housing tax credit to resident taxpayers, section 235-129(b), HRS, allows nonresident S corporation shareholders to claim on their nonresident Hawaii income tax returns their pro rata share of the low-income housing tax credit passed through to them from the S corporation.

Act 37, Session Laws of Hawaii (SLH) 1992, relating to conformity to the Internal Revenue Code, adopted the extension of the low-income housing tax credit to June 30, 1992.

Act 145, SLH 1992, makes operative the low-income housing tax credit under section 235-110.8, HRS, for chapter 241, HRS, taxpayers (banks and other financial institutions) effective January 1, 1993. For fiscal year taxpayers, the tax credit is applicable for the taxable year in which January 1, 1993, occurs.

Act 13, Session Laws of Hawaii 1994, made operative for taxable years beginning after December 31, 1993, section 42 (with respect to low-income housing credit). Accordingly, U.S.

Treasury waivers of certain de minimis errors and recertifications and discrimination against tenants are prohibited effective August 10, 1993. For periods after August 10, 1993, HOME assistance will not result in certain buildings considered being federally subsidized. Generally, for buildings placed in service after June 30, 1992, units with certain full-time students will not be disqualified. Permanent extension of the federal credit is applicable to periods ending after June 30, 1992.

(a) Section 42 (with respect to low-income housing credit) of the IRC shall be operative for the purposes of this chapter as provided in this section.

(b) There shall be allowed to each resident taxpayer subject to the tax imposed by chapter 235, HRS, a low-income housing tax credit which shall be deductible from the taxpayer's net income tax liability, if any, for the taxable year in which the credit is properly claimed.

(c) The low-income housing tax credit shall be 30% of the applicable percentage basis of each building located in Hawaii. Applicable percentage shall be calculated as provided in section 42(b) of the IRC.

(d) For the purposes of this section, the determination of:

(1) Qualified basis and qualified low-income building shall be made under section 42(c);

- (2) Eligible basis shall be made under section 42(d);
- (3) Qualified low-income housing project shall be made under section 42(g);
- (4) Recapture of credit shall be made under section 42(j), except that the tax for the taxable year shall be increased under section 42(j)(1) only with respect to credits that were used to reduce State income taxes;
- (5) Application of at-risk rules shall be made under section 42(k) of the IRC.

(e) As provided in section 42(e), rehabilitation expenditures shall be treated as separate new building and their treatment under this section shall be the same as in section 42(e). The definitions and special rules relating to credit period in section 42(f) and the definitions and special rules in section 42(i) shall be operative for the purposes of this section.

(f) The State housing credit ceiling under section 42(b) shall be zero for the calendar year immediately following the expiration of the federal low-income housing tax credit program and for any calendar year thereafter, except for the carryover of any credit ceiling amount for certain projects in progress which, at the time of the federal expiration, meet the requirements of section 42(n).

(g) The credit allowed under this section shall be claimed against net income tax liability for the taxable year. For the purpose of deducting this tax credit, net income tax liability means net income tax liability reduced by all other credits allowed the taxpayer under this chapter.

A tax credit under this section which exceeds the taxpayer's income tax liability may be used as a credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a tax credit under this section must be filed on or before the end of the 12th month following the close of the taxable year for which the credit may be claimed. Failure to properly claim the credit shall constitute a waiver of the right to claim the credit. In order to claim a credit under this section, a taxpayer must claim a credit under section 42 of the IRC.

Section 469 (with respect to passive activity losses and credits limited) of the IRC shall be applied in claiming the credit under this section.

(h) The Director of Taxation may adopt any rules under chapter 91 and forms necessary to carry out this section.

The Hawaii low-income housing tax credit allowed under section 235-110.8, HRS, is based upon the tax credit allowed for federal income tax purposes under section 42. You must be eligible to claim a low-income housing tax credit on your federal income tax return in order to claim the tax credit on your State income tax return. Generally, the Hawaii low-income tax credit is 30% of the allowable federal low-income housing tax credit.

The tax credit shall be claimed against net income tax liability for the taxable year. For the purpose of deducting this tax credit, net income tax availability means net income tax liability reduced by all other credits allowed the taxpayer under chapter 235, HRS.

A tax credit which exceeds the taxpayer's income tax liability may be used as credit against the taxpayer's income tax liability in subsequent years until exhausted. All claims for a tax credit must be filed on or before the end of the 12th

month following the close of the taxable year for which the credit may be claimed. Failure to properly claim the credit shall constitute a waiver of the right to claim the credit. In order to claim the credit, a taxpayer must claim the credit under section 42 of the IRC.

Section 469 (with respect to passive activity losses and credits limited) shall be applied in claiming the credit under this section.

The HFDC, under the Department of Business, Economic Development, & Tourism, is designated as the State housing credit agency to carry out section 42(h) (with respect to limitation on aggregate credit allowable with respect to projects located in the State). As the State housing credit agency, the corporation shall determine the eligibility basis for a qualified low-income building, make the allocation of housing credit dollar amounts with the State, and determine the portion of the State's housing credit ceiling set aside for projects involving qualified nonprofit organizations.

All claims for allocation of the low-income housing credit under section 235-110.8, HRS, shall be filed with the HFDC. The HFDC shall determine the amount of the credit allocation, if necessary, and return the claim to the taxpayer. The taxpayer shall file a credit allocation form issued by the HFDC with the taxpayer's tax return with the Department of Taxation.

## Part III Recapture of Credit.

There is a 15-year compliance period during which the residential rental building must continue to meet certain requirements. If, as of the close of any tax year in this period, there is a reduction of the qualified basis in any building from the previous year, you may have to recapture a part of the credit you have taken. Similarly, you may have to recapture part of the credits taken in previous years upon certain disposition of the building or interests therein. Complete Part II of Form N-586 to recapture part of the low-income housing credit you took in previous years because there was a decrease in the qualified basis of a building from one year to the next or because you disposed of the building or an ownership interest in it without posting a satisfactory bond (see section 402(j)(6) for details).

**Note:** *If the decrease in qualified basis is because of a change in the amount for which you are financially at-risk on the building, then you must first recalculate the amount of credit taken in prior years pursuant to section 42(k) before you calculate the recapture amount on this form.*

To complete this form you will need copies of all the following federal forms that you have filed: **Form 8586**, Low-Income Housing Credit, **Form 8609**, Allocation Certification, **Schedule A (Form 8609)** Annual Statement, and **Form 8611**, Recapture of Low-Income Housing Credit.

Generally, recapture applies if:

- You dispose of a building or an ownership interest in it; or
- There is a decrease in the qualified basis of the building from one year to the next; or
- The building no longer meets the minimum set-aside requirements of section 42(g)(1), the gross rent requirements of section 42(g)(2), or the other requirements for the units which are set-aside.

Recapture does **not** apply if:

- You disposed of the building or an ownership interest in it and you posted a satisfactory bond. See section 42(a)(6) for details; or
- The decrease in qualified basis does not exceed the additions to qualified basis for which credits were allowable in years after the year the building was placed in service; or
- You correct a noncompliance within a reasonable period after it is discovered or should have been discovered. (However, recapture applies if any vacant unit of comparable or smaller size to the low-income units is rented to other than a low-income tenant (on other than a temporary basis) during any period when the project does not comply with the set-aside requirement or has experienced a reduction in qualified basis for which credits were allowable.); or
- The credit did not reduce your tax liability. In such cases, the allowable general business carryback and carryforward must be adjusted; or
- The qualified basis is reduced because of a casualty loss, provided the property is restored or replaced within a reasonable period.

## Specific Instructions For Part III

**Line 1 through 6.**—If you have recapture from more than two building, attach a schedule and enter the totals in the third column.

If the tax credit recapture is only from a flow-through entity (partnership, S corporation, estate, or trust) skip lines 1-2 and go to line 13.

**Line 1.—Tax credit recapture.**—Section 42(j)(5) partnerships fill in line 6 also. All other flow-through entities (partnerships, S corporations, estates, or trusts) enter the result here and on the appropriate line of Schedule K of your respective return. Enter each recipient's share on the appropriate line of Schedule K-1.

**Lines 4 and 5.—Interest.**—Compute the interest separately for each prior tax year for which a credit rate of 8% (.00667 monthly) for the period beginning on the due date for filing the original return for each prior year involved. Add the interest amounts for each prior year until the earlier of:

- The due date (not including extensions) of the return for the recapture year, or
- The date the return for the recapture year is filed and any income tax due for that year has been fully paid.

Enter the total on line 4 or 5. (This interest is not deductible on your income tax return.)

**Line 6.**—Include the total credit recaptured on the appropriate line representing your tax liability.

For flow-through entities that file Form N-20 or N-35, identify amounts as "Recaptured of low-income housing tax credit":

N-20, Schedule K, line 19 and  
Schedule K-1, line 19.  
N-35, Schedule K, line 17 and  
Schedule K-1, line 20.